

SAN JUAN UNIFIED SCHOOL DISTRICT

Revised Audit Report

INTRADISTRICT ATTENDANCE PROGRAM

Chapters 161 and 915, Statutes of 1993

July 1, 1999, through June 30, 2003



JOHN CHIANG
California State Controller

February 2012



JOHN CHIANG
California State Controller

February 8, 2012

Richard Launey, President
Board of Education
San Juan Unified School District
3738 Walnut Avenue
Carmichael, CA 95608

Dear Mr. Launey:

The State Controller's Office (SCO) audited the costs claimed by the San Juan Unified School District for the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1999, through June 30, 2003.

The district claimed \$615,453 for the mandated program. Our audit disclosed that \$367,677 is allowable and \$247,776 is unallowable primarily because the district claimed costs for unsupported salaries and benefits. The State paid the district \$280,082. The State will pay allowable costs claimed that exceed the amount paid, totaling \$87,595, contingent upon available appropriations.

This second revised final report supersedes the first revised report dated March 18, 2011, to allow an additional \$33,012 in supported costs. In the first and second revised reports, we reconsidered the initial Finding 1 in light of the September 21, 2010 appellate court decision in *Clovis Unified School District et al. v. John Chiang, State Controller*. In the initial final audit report dated December 2, 2005, we did not allow costs supported only with certifications without contemporaneous documentation validating the hours claimed. The costs were either based on average time per occurrence for a specific task or on the amount of time spent annually to complete certain tasks. Many of the certifications were prepared five to six months after the end of the school year. However, the court ruled that the SCO contemporaneous source document rule (CSDR) was invalid prior to the Commission on State Mandates' (CSM) adoption of the rule in the Intradistrict Attendance Program's parameters and guidelines. The CSM adopted the CSDR for this mandate effective July 1, 2005.

In compliance with the court decision, we reconsidered Finding 1 without using the CSDR. We reinstated the \$87,595 in costs, which consisted of \$83,061 in salaries and benefits supported with certifications and \$4,534 in related indirect costs. The remaining unallowable costs did not relate to the SCO application of the CSDR.

The district previously filed an Incorrect Reduction Claim (IRC) with the CSM on August 1, 2008, based on the final audit report issued on December 2, 2005, and revised it on July 26, 2011, based on the revised final audit report issued March 18, 2011. If you disagree with the revised audit findings, you may amend the IRC with the CSM. The amended IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Website at www.csm.ca.gov/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/bf

cc: Glynn Thompson, Interim Superintendent of Schools
San Juan Unified School District
Dina Geiss, CPA, Director of
Accounting and Business Support Services
San Juan Unified School District
Kent Stephens, Chief Financial Officer, Fiscal Services
San Juan Unified School District
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Juan Unified School District for the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1999, through June 30, 2003.

The district claimed \$615,453 for the mandated program. Our audit disclosed that \$367,677 is allowable and \$247,776 is unallowable primarily because the district claimed costs for unsupported salaries and benefits. The State paid the district \$280,082. The State will pay allowable costs claimed that exceed the amount paid, totaling \$87,595, contingent upon available appropriations.

Background

Chapter 161, Statutes of 1993, added Education Code section 35160.5(c). Subsequently, Chapter 204, Statutes of 1996, renumbered the section to 35160.5(b). The law requires the governing board of each school district, on or before July 1, 1994, to prepare and adopt rules that establish and implement an open enrollment policy for district residents. The policy must ensure that:

- The parent or guardian of each school-aged child who is a resident in the district may select the schools the child shall attend;
- Once the intradistrict transfer is selected, the district ascertains the impact of the transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools;
- Intradistrict attendance in excess of school site attendance area capacity is determined by a random, unbiased process that prohibits pupil enrollment based upon his or her academic or athletic performance; and
- No pupil who currently resides in the attendance area of a school will be displaced by pupils transferring from outside the attendance area.

Chapter 915, Statutes of 1993, amended Education Code section 35160.5(c). This law specifies that the intradistrict attendance program does not apply to any school district that has only one school or schools that do not serve any of the same grade levels. The amendment also required school districts to determine school capacities within the district's jurisdiction.

On January 19, 1995, the Commission on State Mandates (CSM) determined that Chapters 161 and 915, Statutes of 1993, imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and defines reimbursement criteria. The CSM adopted the parameters and guidelines on May 24, 1995. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

**Objective, Scope,
and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Intradistrict Attendance Program for the period of July 1, 1999, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code section 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the San Juan Unified School District claimed \$615,453 for costs of the Intradistrict Attendance Program. Our audit disclosed that \$367,677 is allowable and \$247,776 is unallowable. The State paid the district \$280,082. The State will pay allowable costs claimed that exceed the amount paid, totaling \$87,595, contingent upon available appropriation.

**Views of
Responsible
Officials**

We issued a draft audit report on August 5, 2005. Mike Dencavage, Associate Superintendent, Business Services, responded by letter dated September 6, 2005, disagreeing with the audit results. We issued a final audit report on December 2, 2005.

Subsequently, we revised Finding 1 in light of the appellate court decision in *Clovis Unified School District et al. v. John Chiang, State Controller* and reissued the final report on March 18, 2011. We reinstated \$54,583 in costs (\$54,583 in salaries and benefits and \$2,704 in indirect costs). In an e-mail dated March 15, 2011, Mike Dencavage, Chief Financial Officer of Fiscal Services, indicated that he had reviewed the report and had no additional information to provide.

In this second revised report, we reinstated an additional \$33,012 in Finding 1 (\$31,182 in salaries and benefits and \$1,830 in indirect costs) based on a calculation performed by the district that applied FY 2001-02 hours to FY 2000-01.

The district filed an incorrect reduction claim (IRC) on August 1, 2008, and revised it on July 29, 2011. The district designated Keith B. Petersen, President, SixTen and Associates, as its sole representative in these IRCs. We updated Mr. Petersen as to the changes to the report on January 11, 2012. In an e-mail dated January 12, 2012, Mr. Petersen advised our office to proceed with issuing the second revised audit report, as no additional documentation is available. Mr. Petersen also stated that after the release of the second revised audit report and another review of all documentation, he would discuss with district staff whether to withdraw the initial and revised IRCs.

Restricted Use

This report is solely for the information and use of the San Juan Unified School District, the Sacramento County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

February 8, 2012

Revised Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2003

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits	\$ 150,850	\$ 4,814	\$ (146,036)	Finding 1
Materials and supplies	2,313	226	(2,087)	Finding 2
Contracted services	—	—	—	
Total direct costs	153,163	5,040	(148,123)	
Indirect costs	9,634	317	(9,317)	Findings 1, 2
Total program costs	<u>\$ 162,797</u>	5,357	<u>\$ (157,440)</u>	
Less amount paid by the State		(5,357)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits	\$ 239,456	\$ 178,269	\$ (61,187)	Finding 1
Materials and supplies	8,963	6,921	(2,042)	Finding 2
Contracted services	13,613	2,073	(11,540)	Finding 3
Total direct costs	262,032	187,263	(74,769)	
Indirect costs	14,582	10,870	(3,712)	Findings 1, 2
Total program costs	<u>\$ 276,614</u>	198,133	<u>\$ (78,481)</u>	
Less amount paid by the State		(129,162)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68,971</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits	\$ 72,509	\$ 62,216	\$ (10,293)	Finding 1
Materials and supplies	6,514	6,514	—	
Contracted services	—	—	—	
Total direct costs	79,023	68,730	(10,293)	
Indirect costs	3,240	2,818	(422)	Finding 1
Total program costs	<u>\$ 82,263</u>	71,548	<u>\$ (10,715)</u>	
Less amount paid by the State		(57,955)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 13,593</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 90,512	\$ 89,412	\$ (1,100)	Finding 1
Materials and supplies	—	—	—	
Contracted services	—	—	—	
Total direct costs	90,512	89,412	(1,100)	
Indirect costs	3,267	3,227	(40)	Finding 1
Total program costs	<u>\$ 93,779</u>	92,639	<u>\$ (1,140)</u>	
Less amount paid by the State		(87,608)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,031</u>		
<u>Summary: July 1, 1999, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 553,327	\$ 334,711	\$ (218,616)	
Materials and supplies	17,790	13,661	(4,129)	
Contracted services	13,613	2,073	(11,540)	
Total direct costs	584,730	350,445	(234,285)	
Indirect costs	30,723	17,232	(13,491)	
Total program costs	<u>\$ 615,453</u>	367,677	<u>\$ (247,776)</u>	
Less amount paid by the State		(280,082)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 87,595</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported salaries, benefits, and related indirect costs

The district overstated employee salaries and benefits totaling \$218,616 during the audit period. The related indirect costs, based on claimed indirect cost rates, total \$13,240.

The costs are unallowable for the following reasons.

- The district did not provide any source documents (e.g., employee time records or logs) to support \$183,702 in claimed costs (\$132,960 for FY 1999-2000, \$49,842 for FY 2000-01, and \$900 for FY 2001-02).
- The district claimed \$3,203 in costs for FY 1999-2000 that were supported by logsheets that did not indicate the type of mandate activities performed.
- The district overstated costs by \$24,544 (\$9,873 for FY 1999-2000, \$4,178 for FY 2000-01, \$9,393 for FY 2001-02, and \$1,100 for FY 2002-03) because employee timesheets supported fewer employee hours than the hours claimed.
- The district overstated costs by \$7,167 for FY 2000-01 because it used an incorrect hourly rate to calculate the salary and benefit costs for one part-time employee.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	1999-2000	2000-01	2001-02	2002-03	
Salaries and benefits	\$(146,036)	\$ (61,187)	\$(10,293)	\$ (1,100)	\$(218,616)
Related indirect costs	(9,186)	(3,592)	(422)	(40)	(13,240)
Audit adjustment	<u>\$(155,222)</u>	<u>\$ (64,779)</u>	<u>\$(10,715)</u>	<u>\$ (1,140)</u>	<u>\$(231,856)</u>

The following table details the salaries and benefits by reimbursable activities for claimed costs, allowable costs, and audit adjustment.

	Claimed Costs	Allowable Costs	Audit Adjustment
Policy and procedures	\$ 2,765	\$ 2,040	\$(725)
Random selection process	472,496	269,897	(202,599)
Schoolsite capacity	77,358	62,774	(14,584)
Impact on demographics	708	—	(708)
Totals	<u>\$ 553,327</u>	<u>\$ 334,711</u>	<u>\$ (218,616)</u>

The program's parameters and guidelines state that the district should support employee salaries and benefits by specifying the number of hours devoted to each function. The guidelines further state that the average number of hours devoted to each function may be claimed if supported by a documented time study. The district did not provide a documented time study to support claimed costs.

The parameters and guidelines state that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

Recommendation

We recommend that the district establish and implement procedures to ensure that claimed costs are supported with source documents. Additionally, the district should ensure that only actual costs incurred to implement mandated activities are claimed.

**FINDING 2—
Overclaimed materials
and supplies costs**

The district overstated materials and supplies by \$4,129 during FY 1999-2000 and FY 2000-01. The related indirect costs, based on claimed indirect cost rates, total \$251.

For FY 1999-2000, the district claimed \$2,087 in unallowable costs for intradistrict transfer forms (NCR forms) and postage that were not supported. Specifically, the district claimed costs for 5,506 student intradistrict transfers, but only supported 555 transfers. Of the 555 applications, only 537 were completed during the audit period, resulting in 4,969 unallowable transfers. The district claimed a unit cost per completed transfer of \$0.42 (\$0.09 per form and \$0.33 for postage).

For FY 2000-01, the district claimed \$2,042 in unallowable costs for the following reasons:

- The district overstated printing costs by \$3,000 due to a mathematical error. The district claimed \$6,942 in printing costs, but its accounting records only support \$3,942.
- The district claimed \$2,238 for costs that were unrelated to the mandate program. The district claimed 100% of the costs for a computer monitor (\$2,394) and printer (\$802). Only a portion of these claimed costs are allowable because the district also used the equipment for the summer school program, a non-reimbursable activity. Based on the district's data, 60% of the computer monitor cost (\$1,436) is unallowable and 100% of the printer cost (\$802) is unallowable.
- The district understated total materials and supplies costs by \$3,196 by incorrectly claiming certain costs under the contracted services costs component. We reclassified these costs from the contracted services category to materials and supplies.

The following table summarizes the overstated materials and supplies costs:

	Fiscal Year		Total
	1999-2000	2000-01	
Forms and postage	\$ (2,087)	\$ —	\$ (2,087)
Printing	—	(3,000)	(3,000)
Equipment	—	(2,238)	(2,238)
Misclassified costs	—	3,196	3,196
Total	(2,087)	(2,042)	(4,129)
Related indirect costs	(131)	(120)	(251)
Audit adjustment	\$ (2,218)	\$ (2,162)	\$ (4,380)

The following table summarizes reimbursable activities by claimed costs, allowable costs, and audit adjustments:

	Claimed Costs	Allowable Costs	Audit Adjustment
Random selection process	\$ 11,276	\$ 7,147	\$ (4,129)
Schoolsite capacity	6,514	6,514	—
Total	<u>\$ 17,790</u>	<u>\$ 13,661</u>	<u>\$ (4,129)</u>

The parameters and guidelines state that only expenditures which can be identified as a direct cost of the mandate can be claimed. They also require the district to list the cost of materials that have been consumed or expended specifically for the purpose of this mandate.

The parameters and guidelines also state that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

Recommendation

We recommend that the district ensure that all claimed costs are properly supported and eligible for reimbursement.

FINDING 3— Unallowable contracted services

The district overstated contracted services costs by \$11,540 during FY 2000-01. The overstatements are summarized as follows.

- The district incorrectly claimed material and supply costs totaling \$3,196 under contracted services. We reclassified these costs to materials and supplies.
- The district claimed \$8,344 for the costs of remodeling an open enrollment office. The majority of the costs claimed were for office space configuration, new doorway installation, and office furniture purchases. The district did not support that the costs of remodeling an open enrollment office were necessary to comply with the mandate. Moreover, the remodeling of an open enrollment office is not a reimbursable activity under the Intradistrict Attendance Program.

The parameters and guidelines state that only the direct and indirect costs of labor and supplies and services incurred for the mandate components are reimbursable. There are four mandate components: Policy and Procedures, Random Selection Process, Schoolsite Capacity, and Impact on Demographics. Reimbursable costs do not include costs for capital assets.

Recommendation

We recommend that the district ensure that all claimed costs are properly supported and eligible for reimbursement.

**State Controller's Office
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